Pediapharm inc.

Canada's Leading Pediatric Pharmaceutical Company

MANAGEMENT DISCUSSION AND ANALYSIS FOR THE THREE AND TWELVE MONTH PERIODS ENDED MARCH 31, 2016

DATED JUNE 27, 2016

SCOPE OF THIS MANAGEMENT DISCUSSION & ANALYSIS AND NOTICE TO INVESTORS

This management discussion and analysis of financial position and results of operations ("MD&A"), is prepared as of June 27, 2016, and complements the audited consolidated financial statements of Pediapharm Inc. ("Pediapharm" or the "Company"), which include Pediapharm Licensing Inc., its wholly owned subsidiary, for the twelve month period ended March 31, 2016.

All financial information has been prepared in accordance with International Financial Reporting Standards ("IFRS") and all amounts are in Canadian dollars unless otherwise indicated. This MD&A should be read in conjunction with the information contained in the audited consolidated financial statements of the Company and the notes thereto for the twelve-month period ended March 31, 2016.

The audited consolidated financial statements and the MD&A have been reviewed by the audit committee and approved by the Company's Board of Directors on June 27, 2016. These documents and more information about the Company are available on SEDAR at www.sedar.com.

FORWARD LOOKING STATEMENTS

Certain statements made in this MD&A are forward-looking statements or information. The Company is hereby providing cautionary statements identifying important factors that could cause the Company's actual results to differ materially from those projected in the forward-looking statements. Any statements that express, or involve discussions as to, expectations, beliefs, plans, objectives, assumptions or future events or performance (often, but not always, through the use of words or phrases such as "may", "is expected to", "anticipates", "estimates", "intends", "plans", "projection", "could", "vision", "goals", "objective" and "outlook") are not historical facts and may be forward-looking and may involve estimates, assumptions and uncertainties which could cause actual results or outcomes to differ materially from those expressed in the forward-looking statements. In making these forward-looking statements, the Company has assumed that the current market will continue and grow and that the risks listed below will not adversely impact the business of the Company. By their nature, forward looking statements involve numerous assumptions, inherent risks and uncertainties, both general and specific, which contribute to the possibility that the predicted outcomes may not occur or may be delayed. The risks, uncertainties and other factors, many of which are beyond the control of the Company that could influence actual results include, but are not limited to: future capital requirements and dilution; intellectual property protection and infringement risks; competition (including potential for generic competition); reliance on key management personnel;. Pediapharm's ability to implement its business plan; regulatory approval by the Canadian Health authorities; product reimbursement by third party payers; patent litigation or patent expiry; litigation risk; stock price volatility; government regulation; potential third party claims. The Company's expected revenue in the Future Outlook section is based on historical revenue growth. Further, unless otherwise noted, any forward-looking statement speaks only as of the date of this MD&A, and, except as required by applicable law, the Company does not undertake any obligation to update any forward-looking statement to reflect events or circumstances after the date on which such statement is made or to reflect the occurrence of unanticipated events. New factors emerge from time to time, and it is not possible for management to predict all such factors and to assess in advance the impact of each such factor on the business of the Company, or the extent to which any factor or combination of factors may cause actual results to differ materially from those contained in any forward-looking statement.

KEY HIGHLIGHTS-PERIOD ENDED MARCH 31, 2016

In the twelve-month period ended March 31, 2016 ("fiscal 2016"), total revenue increased by 22%, including 55% increase from NYDA®.

In the twelve-month period ended March 31, 2016, operating loss was reduced to $1,339,717 vs $5,048,176 for the twelve month-period ended March 31, 2015.

The Company has $4,941,494 of cash and cash equivalents as of March 31, 2016.

In fiscal 2016, NYDA®, a breakthrough treatment for head lice and its eggs, reached over $3,200,000 in revenue. In the province of Quebec, NYDA is #1 in both unit and dollar market share (IMS data-December 2015) and is ranked # 2 in the rest of Canada (IMS Data-December 2015), where most of the upcoming commercial efforts will be invested. This performance confirms once again the excellent growth momentum obtained by NYDA since it was launched in Canada. Management estimates that NYDA has the potential to reach $4.4 million in fiscal 2017 and the potential to achieve annual peak revenues of $6,000,000 to $8,000,000 within the next two years.

On June 8, 2015, Pediapharm and G. Pohl-Boskamp GmbH & Co KG announced the extension of their exclusive Canadian distribution agreement for NYDA until at least 2021. The revised agreement includes additional renewal clauses and similar terms and conditions as were included in the previous agreement. Furthermore, the revised agreement does not contain any material financial changes from the previous agreement.

On July 24 2015, the Company submitted to the Canadian Health Authorities its regulatory dossier of rupatadine, a novel generation of antihistamine to treat the symptoms of allergy and urticarial in both adults and children. Rupatadine has a unique dual activity by blocking both histamine H_1 and platelet-activating factor (PAF) receptors; thus, providing additional anti-allergic benefits to patients. It comes in a once-daily formulation and is also available in the form of suspension (liquid) for children. The Canadian second-generation anti-histamine market is estimated to be $105 million; of which $17 million from products with a prescription (Rx) status, which are growing at a rate of approximately 15%. The entire antihistamine market was approximately $120 Million in 2013 (IMS Data-2013).

On November 16, 2015, the Company submitted to the Canadian Health Authorities its regulatory dossier of Otixal®; a novel patented formulation of Ciprofloxacin 0.3% otic solution and Fluocinolone Acetonide 0.025% otic solution for the treatment of both acute otitis media in patients with tympanostomy tubes ("AOMT") and acute otitis external (swimmer's ear).

On December 31, 2015, the Company announced that Health Canada had upheld the May 2015 Notice of Deficiency - Withdrawal Letter regarding Easyhaler Budesonide, without prejudice to re-filing. The Company is currently taking the appropriate time to analyze the available documents and notes with its team of consultants and partner that have been involved during this process, in order to assess its potential alternatives. Meanwhile, management has recorded an impairment expense of $216,975 for the Easyhaler Budesonide capitalized licence costs (included in intangible assets). If the Company decides to re-file with Health Canada, the dossier would follow Health Canada's timeline. Consequently, regardless of the Company's decision, there is no short-term impact on the Company's financial results.

On February 2, 2016, the Company successfully completed a formal asset purchase agreement with an industry third party for the sale of its United States rights to Naproxen Suspension in a transaction valued at approximately US$4.25 million (the "Transaction"). Financial terms of the Transaction include: payment of US$2.25 million in cash which was received at closing and recognized as other income in the consolidated statement of comprehensive loss as there were no further conditions to meet. In addition, there is an payment of US$2.0 million in cash conditional on Pediapharm being granted approval from the Food and Drug Administration ("FDA") of the manufacturing site transfer

on or before September 30, 2016. It was never Pediapharm's intention to commercialize Naproxen Suspension in the United States using its own infrastructure. This asset had yet to generate revenue for the Company.

SUBSEQUENT EVENTS

On May 11, 2016, the Company announced that it had received Food and Drug Administration ("FDA") approval regarding the manufacturing site transfer of Naproxen Suspension for the United States market. This approval triggered the second and final payment of US$2 million in cash included in the aforementioned transaction valued at US$4.25 million regarding the United States rights to Naproxen Suspension.

The US$2 million received on May 11, 2016 is in addition to the $4.94 million of cash and cash equivalents the Company had at March 31, 2016.

FUTURE OUTLOOK

The Company's focus remains to execute its commercial plan with existing products, such as NYDA®, a revolutionary treatment indicated for eradication of head lice and its eggs. NYDA® reached over $3,200,000 in revenue in fiscal 2016, is expected to reach $4,400,000 in fiscal 2017 and has the potential to achieve annual peak revenues of $6,000,000 to $8,000,000 within the next two years (IMS data and Management's estimate).

Pediapharm has a product pipeline of secured exclusive agreements which management believes will enable the Company to obtain its corporate annual revenue goal of reaching between $25,000,000 and $30,000,000 within the next 5-6 years. This projected peak sales forecast is based in using IMS data and the Management's estimate in the market share to be captured for each of the product. As described below, projected annual peak sales to be generated from existing licenses/products that have not yet been launched and/or require Health Canada approval are estimated at $15,000,000 (IMS data and Management's estimate). The Company intends on filing Cuvposa™ over the next few months.

The chart below contains information on the secured exclusive agreements that are expected to be launched in the next year. This chart has been updated since the last MD&A dated February 25, 2016 to reflect the changes in the estimated launch dates of Rupatadine and Cuvposa. Rupatadine's estimated launch is now estimated to be in the period of July-September 2016 vs October-December 2016 as previously stated due to the fact the Company now estimates it will receive Health Canada's approval by August 2016. Cuvposa's estimated launch date has been delayed by a quarter due to some delays regarding the dossier to be filed with Health Canada.

PRODUCT	PARTNER-COUNTRY	INDICATION	MARKET SIZE (CDN $)	EST. ANNUAL PEAK SALES (CDN $) (2) (6)	EST. LAUNCH DATE (Calendar Year) (7)
Rupatadine (Rupafin) (1)	Uriach - Spain	Antihistamine (RX Indication)	120M (5)	6M	Q-3 2016
Cetraxal-Plus (Otixal) (1)	Salvat Laboratories - Spain	Ear Infection, Swimmer's Ear	25M (4)	4M	Q-4 2016
Cuvposa (1)	Merz Pharma – USA	Severe Drooling – Cerebral Palsy	25M (3)	5M	Q-2 2017
TOTAL			**170M+**	**15M**	

(1) Canadian License which requires Health Canada Approval
(2) Estimated Annual Peak sales is usually achieved within approximately 5 to 7 years of a product launch
(3) Based on prevalence of Cerebral Palsy patients from the Public Health Agency of Canada
(4) IMS Data – December 2014
(5) IMS Data – December 2013
(6) Based on Market Data (see above footnotes) and Management's estimates
(7) Based on Health Canada's timelines regarding approval of submitted files

Now that Pediapharm has positioned itself with a strong pipeline as shown above, for which most of the regulatory investments are behind, the Company's core strategy regarding business development has recently evolved to focus more on acquisitions of products with existing sales and on co-promotion for products already approved in Canada. The key objective is to generate profitability in a timely fashion while pursuing the regulatory process of the agreements signed in 2014. In parallel, Pediapharm will still assess additional exclusive licensing agreements (commonly known as "in-licensing").

In summary, with the recent sale of its United States rights to Naproxen Suspension, the Company has a solid cash position to execute its business plan, including the upcoming potential launches of Rupafin™ and Otixal® in the second-half of 2016, assuming Health Canada's approvals. Furthermore, the strong revenue growth from Pediapharm branded products such as NYDA®, combined with the reduction of some of its operating expenses, are important steps towards generating positive cash flows. In parallel, the Company is in the process of assessing potential product acquisitions with the key objective to accelerate its strategy to generate positive cash flow over a short period of time. Pediapharm is a growth company in the high-margin specialty pharmaceutical industry, and when opportunities arise to feed that growth, it may raise incremental capital to provide for necessary funding and flexibility.

CORPORATE STRUCTURE OF PEDIAPHARM

Pediapharm was incorporated in 2003 under the federal laws of Canada and commenced its operations in late 2007. The head office and registered and records office of Pediapharm are both located at 225 - 1 Place du Commerce, Verdun, Québec, H3E 1A2. Pediapharm has one wholly-owned subsidiary, Pediapharm Licensing Inc., which was incorporated in 2011 under the laws of Ontario and was granted a drug establishment license by Health Canada. The registered office of Pediapharm Licensing Inc. is located at 4 Innovation Drive, Dundas, Ontario L9H 7P3. The Board of Directors of the Company has decided, following the amalgamation with Chelsea Acquisition Corporation completed on December 10, 2013, to change the Company's financial year-end from December 31 to March 31. Pursuant to section 4.8 of National Instrument 51-102 – *Continuous Disclosure Obligations*, the Company has filed on SEDAR a Notice of Change in Year End providing information about the length and filing dates of its annual audited financial statements and interim financial statements for both its transition year and subsequent financial years.

BUSINESS OVERVIEW OF PEDIAPHARM

Pediapharm is a specialty pharmaceutical corporation that distributes innovative prescription medicines used to treat pathological conditions that mainly affect children from infancy to eighteen (18) years of age. The products that the Company distributes originate from transactions whereby Pediapharm either acquires intellectual property rights through a licensing agreement (commonly known as "in-licensing") that enables Pediapharm to register the drug products with Health Canada in order to commercialize them. As such, Pediapharm does not produce, manufacture or develop products, but rather licenses finished products and sells them. Pediapharm may also acquire products that are already commercialized in Canada. Pediapharm also commercializes non-prescription products (non-prescription drugs, medical devices, diagnostic products) that are innovative and fulfill unmet medical needs of children.

Pediapharm presently does not develop any of its own products or own any patents, but may eventually partner in low-risk novel formulation development of known drugs in order to make them more amenable for pediatric use. Finally, although the core of the commercial approach is geared toward the children population, the Company also has opportunities to generate revenues in the adult market if its products are being prescribed for this patient population.

SELECTED FINANCIAL INFORMATION

FINANCIAL POSITION ANALYSIS

ASSETS

At March 31, 2016, total assets were $7,653,194 as opposed to $9,072,290 at March 31, 2015. Cash was impacted negatively by the operating loss, the investments related to new licences and the interest payments related to the March 30, 2015 private placement of secured, convertible debenture for aggregate gross proceeds of $5,500,000. Accounts receivable have remained at approximately $300,000, and inventories have increased to $609,458 (2015 - $369,752) mainly due to inventories which were received received prior to year-end. Intangible assets have increased by $300,943 mainly due to additional down payments paid to commercial in-licensing partners as well as Health Canada filing fees totalling $655,287 net of amortization charges of $118,785 and impairment loss of $230,299.

LIABILITIES

At March 31, 2016, total current liabilities were $935,648 compared with $999,036 at March 31, 2015. The decrease of $226,288 in accounts payable and accrued liabilities was partly offset by the increase of $166,833 in interest payable related to the March 30, 2015 private placement of secured, convertible debenture for aggregate gross proceeds of $5,500,000.

At March 31, 2016, total long-term liabilities were $3,910,695, compared with $3,583,146 at March 31, 2015, as a result of the March 30, 2015 private placement of secured, convertible debenture.

EQUITY

At March 31, 2016, Shareholders' equity was $2,806,851 compared with $4,490,108 as at March 31, 2015, mainly due to the operating loss during fiscal 2015.

STOCK OPTIONS

On July 2, 2015, the Company granted 150,000 stock options to a service provider. The options were issued with an exercise price of $0.34 per share, have a term of two years and vest over a 12-month period at a rate of 25% per quarter.

On July 23, 2015, the Company granted 1,505,000 common shares to directors, officers, employees and consultants of the Company. The options were issued with an exercise price of $0.34 per share and have a

term of ten years. In addition, the options have varied vesting provisions such that for some, one third of the options may be exercised on the grant date and the remaining options may be exercised in the proportion of one third in each subsequent year, and for others, one fourth of the options may be exercised on the first anniversary of the grant date and the remaining options may be exercised in the proportion of one fourth in each subsequent year.

OPERATING RESULTS ANALYSIS

	March 31, 2016 (3 months)	**March 31, 2015 (3 months)**	**March 31, 2016 (12 months)**	**March 31, 2015 (12 months)**
Revenue from Products	$571,570	$479,065	$3,504,696	$2,496,828
Revenue from Commissions	78,750	(72,410)	245,540	571,855
TOTAL Revenue	650,320	406,655	3,750,236	3,068,683
Gross Profit	416,672	104,103	2,454,237	2,105,863
Selling and administrative expenses	1,763,543	1,958,510	6,750,581	7,063,517
Other Income	3,134,249	-	-	-
Operating profit (loss)	1,910,221	(1,883,051)	(1,339,717)	(5,048,176)
Net profit (loss)	1,537,383	(1,878,160)	(2,299,294)	(4,998,949)
Cash flow from (used in) operating activities	1,731,941	(1,200,010)	(1,286,300)	(4,575,755)
Cash flow from (used in) investing activities	(124,786)	81,512	(659,127)	(911,178)
Cash flow from (used in) financing activities	(1,120)	5,194,464	88,151	5,193,479

FINANCIAL INFORMATION COMPARISON

REVENUE
For the three months ended March 31, 2016, total revenue reached $650,320 compared with revenues of $406,655 in the three months ended March 31, 2015, representing a 60% increase. Revenue from NYDA® increased by 47%.

For the twelve months ended March 31, 2016, total revenue reached $3,750,236 compared with revenues of $3,068,683 in the twelve months ended March 31, 2015, representing a 22% increase. The 40% increase in revenue from sales of Pediapharm branded products was partially offset by the decrease of $326,315 in revenue from commissions.

SELLING AND ADMINISTRATIVE EXPENSES
For the three months ended March 31, 2016, selling and administrative expenses decreased by $194,967 to reach $1,763,543 (2015 - $1,958,510). The decrease in selling and administrative expenses is mainly due to the fact most of the marketing expenses related to the launch of Naproxen in Canada occurred in three months ended March 31, 2015. Furthermore, expenses in business development and medical affairs were lower in the three months ended March 31, 2016 due to the level of activity as well as timing of expenses.

For the twelve months ended March 31, 2016, selling and administrative expenses decreased by $312,936 to reach $6,750,581 (2015 - $7,063,517). Included in the fiscal 2016 expenses is an impairment expense of $216,975 for the Easyhaler Budesonide capitalized licence costs (included in intangible assets). Without this impairment, selling and marketing expenses have decreased by over $500,000 due to the maximization of every sales and marketing dollar spent as well as the fact most of the marketing expenses related to the launch of Naproxen in Canada occurred in twelve months ended March 31, 2015.

OTHER INCOME

In the three months ended March 31, 2016 the Company sold its US rights to the drug Naproxen Suspension in a transaction valued at approximately US$4.25 million (the "Transaction"). Financial terms of the Transaction included an unconditional payment by the Acquirer of US$2.25 million in cash ($3,134,249), which was received at closing and was recorded as other income.

OPERATING PROFIT OR LOSS

The operating profit for the three months ended March 31, 2016 was $1,910,221 compared to an operating loss of $1,883,051 in the three months ended March 31, 2015. In addition to the increase in revenue and gross profit, the Company benefited from the aforementioned sale of its US rights to the drug Naproxen Suspension, which had a positive impact of $3,134,249 in the three months ended March 31, 2016.

The operating loss for the twelve months ended March 31, 2016 was $1,339,717 compared to $5,048,176 in the twelve months ended March 31, 2015. In addition to the increase in revenue and gross profit, the Company benefited from the aforementioned sale of its US rights to the drug Naproxen Suspension, which had a positive impact of $3,134,249 in the twelve months ended March 31, 2016.

NET PROFIT OR LOSS

The net profit for the three months ended March 31, 2016 was $1,537,383 compared to a net loss of $1,878,160 in the three months ended March 31, 2015. In the three months ended March 31, 2016, the difference between operating loss and net loss is mainly due to $365,254 in finance costs. The majority of the aforementioned finance costs are related to the March 31, 2015 private placement of secured, convertible debentures of the Company and share purchase warrants of the Company for aggregate gross proceeds of $5,500,000.

The net loss for the twelve months ended March 31, 2016 was $2,299,294 compared to the $4,998,949 in the twelve months ended March 31, 2015. In the twelve months ended March 31, 2016, the difference between operating loss and net loss is mainly due to $1,001,046 in finance costs related to the March 31, 2015 private placement of secured, convertible debentures of the Company and share purchase warrants of the Company for aggregate gross proceeds of $5,500,000.

CASH FLOW ANALYSIS

Operating activities

For the three months ended March 31, 2016, cash flows from operating activities was $1,731,941 compared with cash flows used in operating activities of $1,200,010 for the three months ended March 31, 2015. The main reason for the significant difference is the US$2.25 million in cash ($3,134,249) received in the three months ended March 31, 2016 as a result of the aforementioned sale of its US rights to the drug Naproxen Suspension.

For the twelve months ended March 31, 2016, cash flows used in operating activities was $1,286,300 compared with $4,560,600 for the twelve months ended March 31, 2015. In addition to the increase in revenue and gross profit, the Company benefited from the aforementioned sale of its US rights to the drug Naproxen Suspension, which had a positive impact of $3,134,249 in the twelve months ended March 31, 2016. There was little change in changes of non-cash operating working capital items but there was an additional $506,287 in interest paid as a result of the March 31, 2015 private placement of secured, convertible debentures of the Company and share purchase warrants of the Company for aggregate gross

proceeds of $5,500,000.

Investing activities
Most of the investing activities for Pediapharm involve the purchase of licenses, as well as the amortization charges as per Pediapharm's accounting policies.

For the three months ended March 31, 2016, cash flows used in investing activities was $124,786 due to expenses related to licences while in the three months ended March 31, 2015, there was no significant investing activity to report.

For the twelve months ended March 31, 2016, cash flows used in investing activities was $659,127 compared with $911,178 for the twelve months ended March 31, 2015. The decrease is due to the significant acquisition activity during the twelve months ended March 31, 2015, which included 3 new licenses from Merz Pharma Canada, Ltd, Laboratories SALVAT S.A., Ltd and Uriach y Compañia, as well as 2 assets from Hoffman La Roche.

Financing activities
For the three months ended March 31, 2016, cash flows used in financing activities was $1,120 compared with cash flows generated from financing activities of $5,194,464 in the three months ended March 31, 2015. In the three months ended March 31, 2015, the Company completed a private placement of secured, convertible debenture for aggregate gross proceeds of $5,500,000.

For the twelve months ended March 31, 2016, financing activities generated $88,150 compared with $5,193,479 in the twelve months ended March 31, 2015. In the twelve months ended March 31, 2015, the Company completed a private placement of secured, convertible debenture for aggregate gross proceeds of $5,500,000.

SUMMARY OF ANNUAL RESULTS

The following tables set out financial performance highlights for the past three fiscal years.

	Twelve months ended March 31, 2016	Twelve months ended March 31, 2015	Fifteen months ended March 31, 2014
Revenues from Products	$3,504,696	$2,496,828	$1,795,058
Revenues from Commissions	$245,540	$571,855	$2,886,718
Total Revenue	$3,750,236	$3,068,683	$4,681,776
Gross Profit	$2,454,237	$2,105,863	$4,042,689
Selling and Administrative Expenses	$6,750,581	$7,063,517	$5,516,570
Other Income	$3,134,249	-	-
Operating Loss	($1,339,717)	($5,048,176)	($1,534,828)
Total Comprehensive Loss	($2,299,294)	($4,998,949)	($4,079,633)
Cash flow from (used in) operations	($1,286,300)	($4,575,755)	($2,010,333)
Cash & cash equivalents, end of period	$4,941,494	$6,798,770	$7,092,224
Assets	$7,653,194	$9,072,290	$8,597,175
Long-term liabilities	$3,910,695	$3,583,146	$4,693
Dividends	$0	$0	$0

SUMMARY OF QUARTERLY RESULTS

	Quarter ended	Quarter ended	Quarter ended	Quarter ended	Quarter ended	Quarter ended	Quarter ended	Quarter ended
	31-Mar-16	31-Dec-15	30-Sep-15	30-Jun-15	31-Mar-15	31-Dec-14	30-Sep-14	30-Jun-14
Revenues from Products	$571,570	$935,498	$1,455,459	$542,168	$479,065	$749,246	$837,007	$431,510
Revenues from Commissions	$78,750	$87,041	$16,275	$63,474	($72,410)	$99,265	$91,250	$453,750
Total Revenue	$650,320	$1,022,539	$1,471,734	$605,642	$406,655	$848,511	$928,257	$885,260
Gross Profit	$416,672	$689,358	$954,480	$393,726	$104,103	$594,347	$612,128	$725,284
Selling and Administrative Expenses	$1,763,543	$1,534,995	$1,688,949	$1,763,095	$1,958,510	$1,702,252	$1,789,763	$1,542,992
Operating Profit (Loss)	$1,910,221	($1,094,932)	($760,755)	($1,394,251)	($1,883,051)	($1,125,460)	($1,193,712)	($830,927)
Net Profit (Loss)	$1,537,383	($1,288,020)	($954,011)	($1,594,646)	($1,878,160)	($1,121,145)	($1,186,937)	($812,707)
Cash flow from (used in) operations	1,731,941	($547,889)	($1,133,694)	($1,336,657)	($1,200,010)	($968,162)	($821,947)	($1,570,481)
Cash & cash equivalents, end of period	4,941,494	$3,351,101	$4,115,708	$5,526,526	$6,798,770	$2,723,241	$4,401,313	$5,341,288
Assets	$7,653,194	$6,164,096	$6,980,730	$7,723,984	$9,072,290	$5,150,150	$6,178,755	$7,111,701
Long-term liabilities	$3,910,695	$3,712,303	$3,669,124	$3,625,945	$3,583,146	$1,500	$6,688	$7,649
Dividends	$0	$0	$0	$0	$0	$0	$0	$0

The main reasons explaining volatility in the Company's quarterly revenue are:

- The termination of the Company's promotional sales agreements with Sanofi Canada in the first quarter of 2014. Quarterly revenue from Sanofi commissions used to be approximately $400,000-500,000. The quarter ended June 30, 2014 was the last one that included revenue from Sanofi commissions ($325,000).

- The seasonality of NYDA, which represented more than 85% of the Company's revenue in the twelve months ended March 31, 2016. Historically, approximately 68-72% of revenue from NYDA is generated in the July-December period.

LIQUIDITY, CAPITAL RESOURCES AND SOURCES OF FINANCING

Pediapharm finished the twelve-month period ended March 31, 2016 with cash amounting to $4,941,494, which is in excess of future expected cash outflows for at least the next twelve months. With the exception of the interest payments related to the $5,500,000 convertible debenture, there are no substantial debt or contractual commitment for the next twelve months.

RELATED PARTY TRANSACTIONS

Transactions with related parties during the year and amounts due to or from these parties as at March 31, 2016 and 2015 are disclosed in these consolidated financial statements.

All related party transactions, unless otherwise disclosed, occurred in the normal course of operations.

For the year ended March 31, 2016, the Company paid management fees in the amount of $171,590 (for the year ended March 31, 2015 – $159,930) to a company owned by the current Chief Financial Officer of the Company.

For the year ended March 31, 2016, the Company paid management fees in the amount of nil (for the year ended March 31, 2015 – $7,000) to a Director of the Company for a project outside of the regular duties of a director.

For the year ended March 31, 2016, the Company paid legal fees in the amount of $36,955 (for the year ended March 31, 2015 – $74,421) to a firm of which a Director of the Company is a partner.

CAPITAL RESOURCES

Pediapharm manages its capital structure and brings about adjustments related to changes in the economic environment and underlying risks of its assets. To preserve or modify its capital structure and to carry on the development and commercialization of technology and fulfill its various financial obligations, Pediapharm may issue additional shares or negotiate new loans.

CONTRACTUAL COMMITMENTS

The future minimum payments required under a long-term operating lease for office space are as follows:

	$
2017	121,240
2018	119,288
2019	79,525

The Company also has commitments related to milestone payments it is required to pay to existing partners if some key milestones are achieved, such as Health Canada approvals.

DESCRIPTION OF THE SECURITIES

Pediapharm authorized share capital consists of an unlimited number of Pediapharm Common Shares. As of June 27, 2016, Pediapharm has 72,512,438 shares outstanding. There have been no dividends declared during the current period.

OFF -BALANCE SHEET ARRANGEMENTS

The Company has no off-balance sheet arrangements.

SIGNIFICANT ACCOUNTING POLICIES

The Company prepares its consolidated financial statements in accordance with IFRS, which require management to make estimates and assumptions that affect the amounts of its assets and liabilities, the information provided with regard to future assets and liabilities as well as the amounts of revenues and expenses for the relevant periods.

The elements in the financial statements that require more use of estimates include valuation of stock options and warrants and impairment of fixed and intangible assets. Actual results may differ from these estimates, but management believes they will not result in material changes versus the results being presented. Readers are invited to refer to the audited consolidated financial statements for the period ended March 31, 2016 for a full description of the significant accounting policies of the Company at that date.

NEW STANDARDS NOT YET ADOPTED BY THE COMPANY

IFRS 9, Financial Instruments

The IASB previously published versions of IFRS 9 that introduced new classification and measurement requirements in 2009 and 2010 and a new hedge accounting model in 2013. In July 2014, the IASB released the final version of IFRS 9, which replaces earlier versions of IFRS 9 issued and completes the

IASB's project to replace IAS 39, Financial Instruments: Recognition and Measurement. The standard is effective for annual periods beginning on or after January 1, 2018, with earlier application permitted. The Company is currently evaluating the impact of the standard on its consolidated financial statements.

IFRS 15, Revenue from Contracts with Customers

In May 2014, the IASB released IFRS 15, which supersedes IAS 11, Construction Contracts, and IAS 18, Revenue, and the related interpretations on revenue recognition: IFRIC 13, Customer Loyalty Programmes, IFRIC 15, Agreements for the Construction of Real Estate, IFRIC 18, Transfers of Assets from Customers, and SIC 31, Revenue – Barter Transactions Involving Advertising Services. The standard is effective for annual periods beginning on or after January 1, 2018, with earlier application permitted. The Company is currently evaluating the impact of the standard on its consolidated financial statements.

IFRS 16 – Leases

In January 2016, the IASB released IFRS 16. The new standard eliminates the classification of leases as either operating or finance leases and introduces a single accounting model for the lessee under which a lease liability and a right-of-use asset is recognized for all leases with a term of more than 12 months. IFRS 16 also substantially carries forward the lessor accounting requirements; accordingly, a lessor continues to classify its leases as operating leases or finance leases. IFRS 16 supersedes IAS 17, Leases, and related interpretations. IFRS 16 is effective for annual periods beginning on January 1, 2019 for the Company, with earlier application permitted for companies that also apply IFRS 15. The Company is currently evaluating the impact of the new standard on its consolidated financial statements.

There are no other IFRSs or IFRIC Interpretations that are not yet effective that would be expected to have a material impact on the Company.

USE OF JUDGMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of consolidated financial statements in conformity with IFRS requires the Company's management to make estimates and judgments that affect the application of accounting policies and the reported amounts of assets, liabilities, revenues and expenses and related disclosure of contingent assets and liabilities. Management bases its estimates and judgments on historical experience and on various other assumptions that it considers reasonable. The areas involving a high degree of judgment or complexity, or other areas where assumptions and estimates are significant to the consolidated financial statements are disclosed below. Actual results could differ from those estimates. Changes will be reported in the period in which they are identified.

a) Fair value of stock options and warrants

When the Company issues stock options and warrants, an estimate of fair value is derived for the instrument using the Black-Scholes option pricing model. The application of this option pricing model requires management to make assumptions regarding several variables, including the period for which the instrument will be outstanding, the price volatility of the Company's shares over a relevant time frame, the determination of a relevant risk-free interest rate and an assumption regarding the Company's dividend policy in the future. If different assumptions are used, the value derived for the instruments could be significantly impacted. See notes 9 and 10 for assumptions used to value these instruments.

b) Impairment of intangible assets

Licences are recognized as intangible assets and are amortized over their useful lives when they meet the criteria for capitalization. Forecasted revenue and profitability for the relevant products are used to assess compliance with the capitalization criteria and to assess the recoverable amount of the assets. The useful life is determined by identifying the period in which substantially all of the cash flows are expected to be generated and generally amortization starts either as from the date of the distribution approval granted by Health Canada or from the date of the licence contract signature, depending on the contract terms. Whenever licences are tested for impairment, the determination of the assets' recoverable amount involves the use of estimates by management and can have a material impact on the respective values and ultimately the amount of any impairment.

On December 31, 2015, the Company announced that Health Canada has upheld the May 2015 Notice of Deficiency – Withdrawal Letter regarding Easyhaler Budesonide, without prejudice to refiling. The Company will take the appropriate time to analyze the available documents and notes with its team of consultants and partner that have been involved during this process, in order to assess its potential alternatives. Meanwhile, management has recorded an impairment expense of $216,975 for the Easyhaler Budesonide capitalized licence costs (included in intangible assets).

c) Fair value of convertible debentures

The convertible debentures are a compound financial instrument under IAS 32, Financial Instruments: Presentation, and have both a liability and an equity component. The fair value of the consideration for the compound instrument must be split into its liability and equity components. The fair value of the consideration in respect of the liability component is first measured at the fair value of a similar liability that does not have any associated equity conversion option. This becomes the liability component's carrying amount at initial recognition, and the residual amount is allocated to the equity components. The most significant assumption used is the discount rate to fair value for the liability component. If other assumptions are used, the values derived could be significantly impacted. See note 8 for the assumptions used to determine the fair value of the convertible debentures.

FINANCIAL INSTRUMENTS

Liquidity risk

Liquidity risk arises when a company encounters difficulties in meeting commitments associated with liabilities and other payment obligations. Liquidity risk is managed by maintaining adequate reserves and banking facilities and by closely monitoring forecast and actual cash flows. The Company is exposed to this risk mainly in respect of its accounts payable and accrued liabilities and convertible debentures.

Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The Company is exposed mainly to credit risk on its cash and cash equivalents and accounts receivable. The Company offers credit to its customers in the normal course of its operations. It continually assesses the credit risk of its customers and accounts for an allowance for

doubtful accounts, if any. The credit risk on cash and cash equivalents is mitigated by the fact that they are in place with major Canadian financial institutions.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company is exposed to interest rate risk on its fixed and floating interest rate financial instruments. Fixed rate instruments subject the Company to fair value risk, while floating rate instruments subject it to cash flow risk. The Company has performed a sensitivity analysis on interest rate risk as at March 31, 2016 and 2015. A change in interest rates on borrowings of 1% higher or lower will not have a significant impact on loss and comprehensive loss for the year.

Disclosure controls and procedures

Disclosure controls and procedures have been established by the Company to ensure that financial information disclosed by the Company in this MD&A, the related annual consolidated financial statements and its interim filings are properly recorded, processed, summarized and reported to its audit committee, its Board of Directors and its shareholders.

Internal controls over financial reporting

As an issuer on the TSX Venture Exchange, the CEO and the CFO are not required to certify that they have designed and evaluated the effectiveness of disclosure controls and procedures and internal controls over financial reporting. Instead, the Company files a Certification of Annual Filings – Venture Issuer Basic Certificate that certifies the performance of a review of the information, no knowledge of misrepresentations and the fair presentation of the information in the annual filings.

Readers are referred to the more detailed information described in other disclosure documents filed with the applicable Canadian securities regulatory authorities and available at www.sedar.com .

Management of Pediapharm Inc.